RBI Monetary Policy – June 2025

6th JUNE 2025

The Monetary Policy Committee (MPC) held its 55th meeting from June 4 to 6, 2025. After assessing the current and evolving macroeconomic situation, the Reserve Bank of India delivered a bigger-than-expected repo rate cut by 50 basis points (bps) to 5.50% with immediate effect. This announcement comes at a time when inflation is within the central bank's medium-term target of 4% with a band of +/- 2%, while support is required to boost economic growth. The banking system is already in a surplus mode after RBI infused durable liquidity of ₹9.5 lakh crore since January. This 50-basis-point reduction is the sharpest rate cut since the 75-basis-point emergency easing during the Covid-19 crisis in March 2020.

Larger than expected rate-cut

With today's cut by 50 bps, RBI aims to provide support to the economy amid global headwinds such as trade war worries. RBI also said that after having reduced the policy repo rate by 100 bps in quick succession since February 2025, under the current circumstances, monetary policy is left with very limited space to support growth. Hence, the MPC also decided to change the stance from 'accommodative' to 'neutral'. The change to neutral stance could largely be intentioned towards keeping inflation expectations in check. RBI added that MPC will be carefully assessing the incoming data and the evolving outlook to chart out the future course of monetary policy in order to strike the right growth-inflation balance.

Inflation forecast lowered

As per the Ministry of Statistics and Program Implementation (MOSPI), retail inflation eased to a nearly six-year low of 3.16% in April 2025, down from 3.34% in March, well below the RBI's comfort level of 4%. This was led mainly by food inflation which recorded the sixth consecutive monthly decline. Citing a sustained decline in price pressures, the RBI cut its inflation forecast for FY26 to 3.7%, down from the 4% projected in April 2025.

Growth outlook maintained

The Indian economy has been resilient in the face of geopolitical risks, with real GDP growth surging to 7.4% in Q4FY25 against 6.4% in Q3FY25; GDP growth was placed at 6.5% for FY25. However, the MPC stated that "growth remains lower than our aspirations amidst challenging global environment and heightened uncertainty". Citing increasing investment activity, improved balance sheets of corporates, push in governments capital expenditure and support in trade activity from the Free Trade Agreement (FTA) with the UK, RBI has maintained its real GDP growth projection of 6.5% for FY26.

CRR slashed by 100 bps

In another unexpected move, the RBI announced a phased 100 bps cut in the Cash Reserve Ratio (CRR) – from 4% to 3% – to be implemented in four tranches of 25 bps each starting in September 2025. The RBI Governor expects this step to inject about ₹2.5 lakh crore into the banking system, enhancing banks' lending capacity and lowering funding costs. The CRR has fallen to 3% only once before, at the peak of COVID (June 2020 – March 2021).

Uncertainty around the global economic outlook has ebbed somewhat since MPC met in April with temporary tariff reprieve and optimism around trade negotiations. However, it continues to remain elevated to weaken sentiments and lower global growth prospects. Although RBI has taken measures to boost the economy amid slowing growth, it is imperative to continue to stimulate domestic private consumption and investment through policy levers to step up the growth momentum.